B6200-2 11/30/83

World Financial Markets

Morgan Guaranty Trust Company of New York

November 1983

Canada: recent developments and prospects, 1

- Economic recovery, 2
- Inflation subsides, 4
- Current account and the dollar, 5
- Policy issues, 6

Statistical appendix, 9

Canada: recent developments and prospects

Canada suffered a severe recession in 1981-82, and since the beginning of this year has enjoyed a substantial recovery. Recession was deeper than in the United States, and the subsequent recovery does not appear to have quite as much momentum. These differences are attributable in part to the fact that the Canadian economy was in worse shape at the beginning of the 1980s in terms of inflationary pressures, productivity performance, and energy policy. Damage to the Canadian investment climate caused by increased government intervention in markets and resurgent economic nationalism undoubtedly intensified the downturn. That subsequent recovery has not been quite as robust and broadly based as in the United States also reflects less domestic policy stimulus.

Nonetheless, compared with the experience in Europe and Japan, Canada's economic upturn is impressive. It is not surprising that Canada has shared in the strong U.S. rebound, given the country's very close links with the United States. Expansionary domestic fiscal policy has also played an important role. In contrast, European and Japanese governments have maintained restrictive fiscal policies that have dampened or delayed the resumption of economic growth. While critics abroad have argued that the U.S. policy mix, particularly high interest rates, inhibits their recovery, Canada, which incidentally has a similar policy mix, has enjoyed a good recovery.

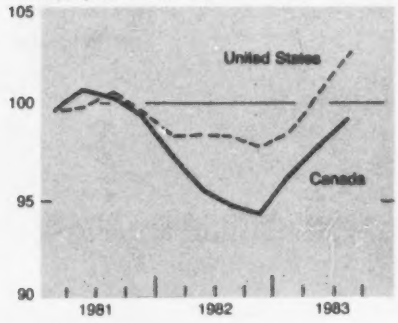
Many of the concerns and policy issues now facing Canada — worry about sustaining recovery and avoiding renewed inflationary pressures, anxiety over the competitiveness of Canadian industry in world markets, and concern about the effects of large budget deficits — closely resemble those in the United States. It seems likely that Canadian economic growth will continue, but at a more moderate pace than experienced earlier this year. Canada's large budget deficits threaten to crowd out private-sector investment at some stage, but do not pose an immediate threat. Inflation has leveled out at around 5% and probably will not reaccelerate significantly next year. However, the competitive position of Canadian industry has already eroded as a result of more rapid cost increases than in the United States and the decision to tie the Canadian dollar more

Chart 1

Recession and recovery

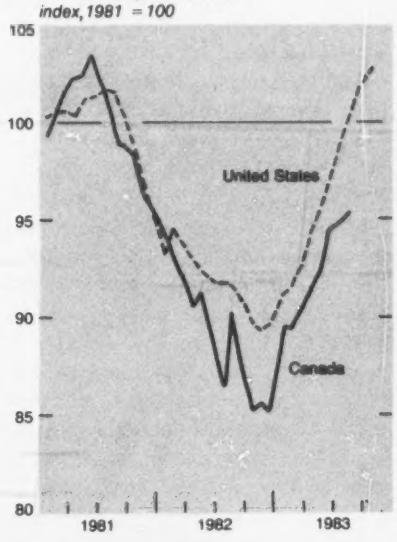
Real GNP

index, 1981 = 100



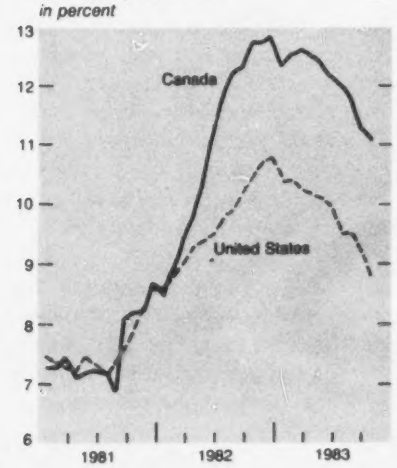
Industrial production

index, 1981 = 100



Unemployment rate

in percent



closely to the strong U.S. dollar. In time, this may be reflected in trade performance and pressure on the Canadian dollar.

Economic recovery

Canada's real GNP advanced at nearly a 7½% annual rate in the first two quarters of 1983. Notwithstanding signs of slowing during the summer months, growth probably ran close to 6% in the third quarter.

This brisk upturn followed six quarters of recession, which saw a 6½% drop in real GNP and a rise in unemployment from just over 7% of the labor force in mid-1981 to 12.8% at the end of 1982. It was by far the steepest contraction of economic activity in Canada since the 1930s, and it was greater than that experienced by the United States in 1981-82 (see Chart 1). Even with the strong upturn this year, real GNP in the third quarter of 1983 was approximately 1½% below the pre-recession peak, whereas the United States exceeded its previous peak in output at midyear. By October employment had risen sufficiently to restore about three-fifths of the jobs lost during the recession, but the unemployment rate, at 11.1%, remains very high.

Several factors triggered recovery. Monetary and fiscal policies were eased as inflation decelerated. Particularly important was the six-percentage-point decline of short- and intermediate-term interest rates in the second half of 1982 and early 1983, which paralleled the drop in U.S. rates. It led to a pickup in such interest-sensitive sectors as consumer durables and housing. The federal government, in addition to allowing full operation of the automatic stabilizers, took several discretionary fiscal measures to assist recovery. As a result, the federal budget deficit (on a national income accounts basis) rose from C$5.5 billion (1.7% of GNP) in the first half of 1981 to C$22.6 billion (6%) in the first half of 1983, at seasonally adjusted annual rates. In addition to these policy influences, rapid recovery in the United States, which is the market for over two-thirds of Canada's exports, provided a strong boost to domestic output. Exports to the United States increased by nearly 10% in the first nine months of 1983 from a year earlier. Finally, the rate of inventory reduction slowed. Sharp inventory cuts accounted for nearly two-thirds of last year's 4.8% decline in real GNP, whereas the slowing of such reductions contributed more than two-thirds of the real GNP gain in this year's first half.

Even though real disposable income fell during the first half of this year, consumer spending in real terms rose at an annual rate of 3.7% from the second half of 1982. Consumer confidence improved rapidly as interest rates, inflation, and unemployment declined. This led consumers to reduce their rate of saving, which had climbed to a record-high 15% last year. The personal savings rate dropped to 11.4% in the first half of 1983, or close to the average for the five years through 1981. However, retail sales growth slackened during the third quarter, partly because of the reinstatement of the Ontario sales tax on household appliances and furniture in early August and temporary shortages in auto inventories during the model-year changeover. It also appears that Canadian consumers have not been drawing on their savings to the same extent as earlier in the year.

Housing activity rebounded sharply in late 1982 and the first half of 1983, stimulated by government incentive programs and a large drop in mortgage rates. By mid-1983 the average rate for a five-year conven-

tional mortgage had fallen to about 13% from over 19% a year earlier. Housing starts jumped from an annual rate of less than 100,000 in the third quarter of 1982 to 220,000 in the second quarter of 1983. Since then, however, the pace of new starts has fallen off, partly reflecting the expiration of government support programs.

The slackening of output and retail sales growth and the fallback in housing starts during the summer months are seen by some observers as portents of a slowdown in economic growth during the remainder of this year and in 1984. The flattening of interest rates at such high nominal and real levels and the winding down of special government programs for direct employment support and public works are also cited as reasons for expecting a slowdown.

Still, growth should continue at a 4%-5% rate through next year. The momentum of the U.S. economy will have an important real and psychological influence on Canadian business. Inventories are now well below trend in relation to sales, so an end to destocking late this year and a gradual rebuilding of inventories next year ought to provide a boost to output. As evidence, new orders received by manufacturers rose 25% at an annual rate in the three months ended August 1983. Consumer outlays also should rise, albeit gradually. Consumers have built up their liquidity and trimmed their debt burdens, and pent-up demand for consumer durables has not been fully satisfied. Even though wage settlements have decelerated sharply over the past year, employment gains should be sufficient to keep consumer income growth ahead of inflation. The government also may put more funds into job creation programs next near.

Business plant and equipment investment has been very weak. It fell more than 11% in real terms last year and at an annual rate of 6.7% in the first half of 1983. However, a midyear survey of investment intentions implied that business planned to invest almost as much in the second half of this year as it did in the first half. New orders for machinery and equipment as well as imports of same have picked up in recent months. Business sentiment has improved as sales have increased and corporate profits have begun to recover. Better relations between business and the government and more favorable attitudes toward foreign investment also have helped. But several factors will probably delay a major upturn in plant and equipment outlays, especially for new capacity as opposed to cost reduction.

First, capacity utilization, while up from recession lows, is still well below normal even allowing for the possibility that existing capacity measures do not sufficiently reflect obsolescence. The rate of capacity utilization in industry during the second quarter of 1983 reached about 73%, compared with over 85% in mid-1981 and a long-term average of close to 90%. In some sectors, particularly such cyclically sensitive ones as mining, chemicals, transportation equipment, and other machinery and equipment, capacity utilization rates are much lower, ranging between 50% and 65%.

Second, although corporate profits have improved sharply this year, they are recovering from a very low level. Pretax corporate profits plunged by more than 40% between the first half of 1981 and the second half of 1982, falling as a share of net national income from 14.3% to 7.8%. Even with the strong first-half 1983 recovery, their share was only 10.2%. Returns on capital will have to improve further before substan-

tial new outlays become attractive, especially given the high level of interest rates.

Third, many corporations are using their higher profits and better cash flows to rebuild liquidity and improve balance sheet positions before embarking on major new capital expenditures. Thus, business capital spending is unlikely to make a significant contribution to Canada's overall economic expansion before the middle of next year.

Inflation subsides

Overall economic recovery has been accompanied by a further easing of inflationary pressures. The unwinding began in the second half of 1982 while recession was still deepening. Canada, however, lagged behind the United States and many other industrial nations in bringing inflation under control. This was a reflection of how deeply imbedded inflationary expectations had become, as well as a consequence of the delay in raising domestic energy prices toward higher world price levels. From late 1982 on, however, inflation decelerated rapidly. The consumer price index rose only 5% in the 12 months to September 1983, versus a 12-month rate of 10.4% a year earlier, and a 12.5% average in 1981.

Underlying the rapid deceleration of inflation has been the effect of recession on domestic product and labor markets. Wage increases granted in the second quarter of 1983 under major private-sector collective bargaining agreements (without cost of living allowances) averaged less than 6%, compared with increases averaging more than 12½% in the first half of 1982. The sharp deceleration in wages has been aided by the federal government's 6/5 program, which limited wage increases of federal employees to 6% in the year to mid-1983 and 5% in the year to mid-1984. Most provincial governments implemented similar wage restraint. Altogether, an estimated 80% of all public-sector employees in the country were brought under some form of wage control legislation.

Labor productivity, measured by real GNP per employee, began to rise during the latter part of 1982, even while output was still falling. And it increased at an annual rate of 4% in the first half of 1983 as recovery progressed, reversing a decline in this broad measure of productivity in recent years. In combination with the deceleration in wages, the productivity improvement slowed the rise in unit labor costs to about 2% at an annual rate in the first half of 1983, compared to increases averaging nearly 12½% in the previous three years. In manufacturing alone, unit labor costs actually declined at an annual rate of about 3½% in the first half of 1983, versus an increase of 14½% in 1982.

One of the key issues now facing Canada is whether progress in reducing inflation over the past year can be consolidated. Some observers argue that inflation has bottomed out and will accelerate as management and labor attempt to recoup lost ground in terms of profit margins and nominal wages. Monetarists express concern about the impact of rapid acceleration of money supply (M1) growth this year. Others point to large federal budget deficits and worry that continuing high unemployment will pressure the government to take steps that could aggravate inflation. Some also regard the recent upturn in productivity as largely cyclical and find the long-term slowdown in productivity disturbing from the viewpoint of inflation as well as potential growth.

Chances are that price and cost increases will remain in the 5%-6%

Table 1

Current account

billions of dollars

	1982	1983	1984
Exports	68.6	73.0	80.0
Imports	—53.7	—59.0	—65.5
Trade balance	14.9	14.0	14.5
Net services and transfers	—12.4	—12.5	—13.7
Current account	2.5	1.5	0.8

range through 1984. Food price increases are expected to accelerate somewhat from the 2.6% rate in the past 12 months. Energy prices, however, are likely to remain subdued given soft world oil market conditions and the suspension of further increases in domestic oil prices. Although industrial commodity prices rose briskly at the beginning of this year, many metal and mineral prices have eased in recent months, lessening upward pressure on consumer prices from this source.

The moderating trend in wages should continue as recent, lower settlements feed through. Federal government employees will remain under a 5% wage-increase limit through mid-1984, and budgetary constraints should contain pay increases at provincial and local levels. There will be a heavy bargaining calendar in 1984, but with consumer price inflation of 5½% and unemployment averaging nearly 11% next year, labor ought not be too aggressive. Likewise, managements are likely to remain very cost conscious.

Productivity trends are uncertain. There should be more near-term, cyclical improvement. However, long-term trends have been unfavorable. Productivity in Canada, as measured by real output per employed person, declined at an average annual rate of 0.2% between 1974 and 1982. This was the worst performance among the seven largest industrial nations. Various explanations have been advanced: shifts in industrial structure toward more service-oriented industries; changes in the age-sex composition of the labor force; decline in the growth of capital stock relative to labor; obsolescence of existing capital stock due to higher energy prices; slowness in adopting new technology; geographic and institutional rigidities that inhibit labor and capital mobility; and depletion of the most accessible and highest quality natural resources. But numerous studies have failed to establish major quantitative significance for any single factor, making it difficult to judge whether future productivity trends will be much better than in the past, thereby alleviating inflationary pressures. Nonetheless, as in the United States, there is considerable evidence of efficiency improvements in Canadian industry that are more than cyclical in nature.

Current account and the dollar

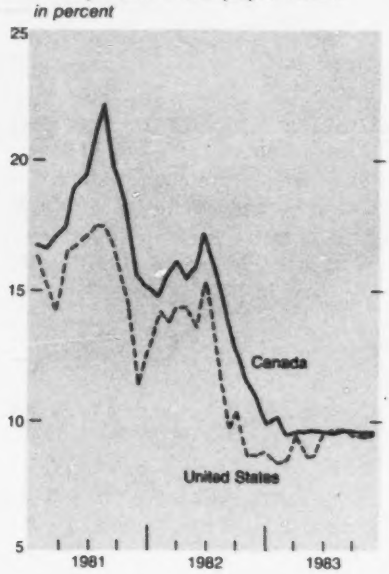
Canada's exceptionally deep recession last year led to a large increase in the country's merchandise trade surplus from $6.2 billion in 1981 to $14.9 billion in 1982, as imports fell by more than 16% while exports dropped by less than 3%. This year import volume has recovered more rapidly than export volume, but these relative volume changes have been partly offset by improved terms of trade. Exports to the United States have risen strongly this year, but shipments to Western Europe and Latin America have fallen considerably. In the first three quarters of this year the trade surplus was $14.3 billion at a seasonally adjusted annual rate, only slightly below last year's record level. Thus, the current account balance, which swung into a surplus of $2.5 billion last year from a deficit of $4.8 billion in 1981, has remained in surplus. Allowing for a modest widening of Canada's net invisibles deficit, the current account surplus probably will narrow to around $1½ billion for the full year (see Table 1).

While cyclical factors have been the predominant influence on Canada's trade and current account performance during the past two years, major shifts in energy and automotive trade are partly explained by

Chart 2

Canadian and U.S. interest rates
end of month data

90-day commercial paper rates
in percent



Long-term corporate bond yields
in percent

other factors. Canada's surplus in net energy trade rose from $1.9 billion in 1981 to $4.9 billion in 1982, and $7.3 billion in the first half of 1983 at an annual rate. Most of this increase was accounted for by a swing in net oil trade (crude and products) from a deficit of $3 billion in 1981 to a surplus of nearly $2 billion in the first half of 1983 at an annual rate. Since 1981 domestic oil production has risen slightly, while domestic oil consumption has fallen by more than 12% as a consequence of lower economic activity, higher domestic oil prices, and switching to alternative fuels, especially natural gas. There has also been a favorable swing in Canada's motor vehicle trade with the United States from a deficit of $1.9 billion in 1981 to a surplus of $2.2 billion in the first half of 1983 at an annual rate. Not only have car sales recovered more strongly in the United States than Canada, but sales have shifted toward larger-sized models, in which Canadian production is concentrated.

The current account is likely to remain in surplus next year, although the magnitude probably will shrink to less than $1 billion. Exports to the United States should continue to expand at a good pace, while shipments to Europe and Japan ought to pick up as economic activity revives in those markets. Imports will also rise, although their rate of growth should moderate in line with the slowing of domestic growth, at least until machinery and equipment investment, which is very import intensive, strengthens. However, there are not likely to be further gains in net automotive and energy trade. In the latter case, domestic oil consumption may level out and domestic production could fall slightly. Moreover, natural gas exports to the United States could weaken further in view of the current gas glut in the United States and the relatively high export price of Canadian gas. Canada's large net invisibles deficit also could widen, especially as the recovery of corporate profits leads to increased direct investment income payments. The terms of trade are a major source of uncertainty affecting next year's current account outlook. As a large net exporter of agricultural commodities, metals, and other industrial materials, and a large net importer of finished manufactures, Canada's terms of trade are particularly sensitive to world commodity price developments.

Current account surpluses, plus substantial long-term borrowing abroad through the issuance of bonds and notes, have supported the Canadian dollar. The currency also has benefited from the sharp drop of inflation and from some of the same "safe haven" considerations that have attracted funds into the U.S. dollar. These factors have enabled the Bank of Canada to narrow interest rate differentials with the United States — and even temporarily reverse them at the short end of the market — while maintaining a stable U.S. dollar exchange rate. With some narrowing of the current account surplus likely and inflation moderately higher than in the United States, the restoration of positive interest differentials may be needed to maintain exchange rate stability vis-à-vis the U.S. dollar — a key policy objective.

Policy issues

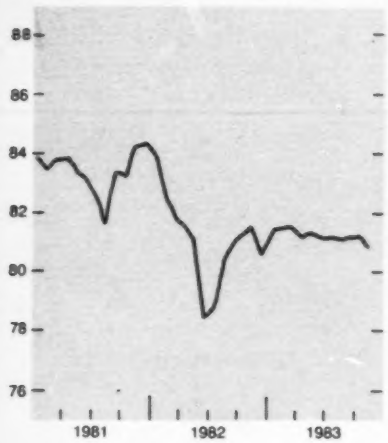
Maintaining exchange rate stability in relation to the U.S. dollar has been an important policy consideration for several years, but it has assumed even greater significance during the past year or so as an integral part of the government's anti-inflation strategy.

The Bank of Canada, which still

Chart 3

Canadian dollar exchange rate

monthly average rates in U.S. cents



carries the main burden of fighting inflation, has stated its intention to maintain steady downward pressure on inflation. Until a year ago the central bank's operations were geared toward meeting successively lower target ranges for M1 growth. However, in November 1982 it withdrew its target range for M1 growth. At the time, M1 had been growing below the lower boundary of the 4%-8% target for more than a year. The bank withdrew the target range because it felt that, partly because of rapid financial innovation, the relationship of M1 to interest rates and total spending was no longer sufficiently reliable to be useful for setting targets. The bank has yet to identify another aggregate considered suitable for target-setting, but insists that there has not been a basic change in its approach to monetary policy, namely slowing the rate of monetary expansion.

Some observers have expressed concern about the inflationary implications of the sharp acceleration of M1 growth this year. M1 has risen more than 12% over the past 12 months. However, the broader aggregates do not convey a picture of excessive monetary expansion: M2 is up only 5% over the past year and M3 is virtually unchanged, while total bank loans have fallen by nearly 10%.

In the absence of a specific money supply target, the exchange rate has become the most visible focus of monetary policy operations. The Bank of Canada argued in its last annual report that the exchange rate for the Canadian dollar in relation to the U.S. dollar is the most important single price in the economy, and that wide swings in the rate would be disruptive in terms of real economic activity and price stability. In its judgment, the current exchange rate level strikes an appropriate balance between the need for export industries to be reasonably competitive in foreign markets and the desire to prevent domestic prices and costs from being driven up by exchange rate depreciation.

Given the high degree of interconnection between the Canadian and U.S. economies and financial markets, stabilizing the exchange rate has entailed a considerable degree of harmonization of policies, especially monetary policy. It has meant that Canadian interest rates have had to be kept broadly in line with U.S. rates. Canadian dollar strength arising from trade and current account surpluses, as well as other factors, however, has allowed the Bank of Canada to permit the differential between Canadian and U.S. interest rates to narrow over the past year (see Chart 2). Indeed, since July 1983 the differential in money market rates has occasionally turned slightly negative, with the exchange rate remaining stable at around 81 U.S. cents (see Chart 3). Canadian officials can be expected to take every opportunity to reduce domestic interest rates further in relation to U.S. rates as long as it does not seriously jeopardize the Canadian dollar's stability in relation to the U.S. dollar.

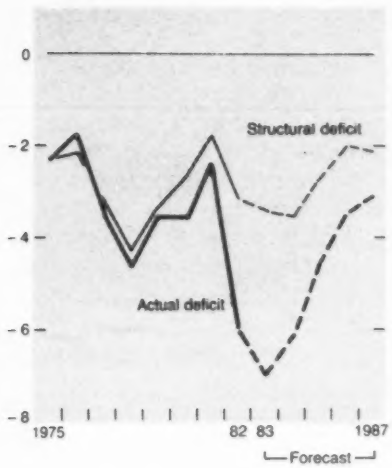
The desirability of maintaining a stable exchange rate at the current level may be called into question at some point. For example, if U.S. interest rates were to rise substantially next year, Canadian officials would be faced with a difficult choice between raising domestic interest rates, with the risk of slowing economic activity while unemployment is still very high, or allowing the exchange rate to weaken, with the risk of worsening domestic inflation.

Another consideration is the competitiveness of Canadian industry. Canada's cost competitiveness vis-à-vis the United States has eroded

Chart 4

*Federal government budget deficits**

as percent of GNP



in recent years, and Canadian wage costs are likely to continue rising relative to those in the United States in the year ahead. Between 1980 and the second quarter of 1983, Canada's unit labor costs in manufacturing, adjusted for exchange rate changes, rose 9% more than those in the United States. This eliminated much of the gain Canada made in the late 1970s as a result of the depreciation of the Canadian dollar.

Moreover, in maintaining a stable exchange rate against the strong U.S. dollar, Canada has lost considerable competitive ground in relation to many European countries as well as Japan. A number of Canadian industries are now facing severe price competition from abroad.

A policy change is not imminent. But if Canada is unable to hold its costs in line with the United States and other competitors and if Canada's trade performance proves weaker than expected, the wisdom of maintaining the current exchange rate level will be increasingly questioned, if not tested in the marketplace.

Fiscal policy has shifted in the direction of stimulating recovery and reducing unemployment. In April the government launched a Special Recovery Program — comprising additional outlays for public works and job creation, liberalized investment tax credits, and increased support for housing and exports — with a net cost of about C$1.9 billion (0.5% of GNP) in the current fiscal year, which runs through March 1984. Overall, federal government expenditures are budgeted to increase nearly 12% versus the rise in total revenues of about 9%, producing a deficit on a national accounts basis of C$28.2 billion (7.3% of GNP), up from C$23.5 billion (6.7%) in 1982/83 and C$9.9 billion (3.0%) in 1981/82. In relative terms, Canada's federal budget deficit is larger than that of the United States, which on a comparable basis was 5.7% of GNP in the fiscal year just ended.

In an effort to allay concerns that large federal budget deficits will lead to inflation and crowding out of private investment, the government last April presented a medium-term plan for steady reduction in the deficit to around C$17 billion or just over 3% of GNP in 1987 (see Chart 4). This projected decline reflects the effects of both economic growth and measures to trim the structural component of the deficit. The government estimates that about half of this year's budget deficit is structural, and that by 1987 the structural component will narrow to about 2% of GNP, reflecting in part tax increases adopted last April that go into effect in late 1984 and 1985. In this respect, Canada's budget outlook diverges from that of the United States where, on the basis of existing revenue and expenditure programs, the structural element of the deficit rises steadily in relation to GNP.

On the basis of fairly optimistic assumptions that real GNP growth will average more than 4½% per annum during 1984-87 and unemployment will fall from an average of about 12% this year to less than 9% in 1987, the cyclical element of the deficit is estimated by the government to fall from about 3½% of GNP in 1983 to a little over 1% in 1987. If growth averages only about 3% and unemployment remains close to 11%, the budget deficit in 1987 would be nearer to 4% of GNP, with the cyclical component more than half of this.

Past experience gives ground for doubts about the realization of medium-term fiscal plans. In the early 1980s the government sought to curb budget deficits in future years with the National Energy Program (NEP), which sharply increased

taxes on oil and gas production. However, the negative impact of the NEP on the petroleum industry and, even more importantly, the weakening in world oil prices forced modifications in energy taxes and sharply reduced expected federal revenues, thereby undermining that strategy for medium-term budget reduction.

The latest fiscal plan envisages a decline in the ratio of total expenditures to GNP from a high of about 26% in the current fiscal year to 23½% in 1986/87, but the government's record of expenditure restraint arouses skepticism. Since the mid-1970s the government has repeatedly promised to hold expenditure growth in line with overall GNP growth. Yet, total outlays actually rose from about 21% of GNP in the mid-1970s to nearly 26% in the fiscal year that ended last March. With elections expected next year, the government is already hinting at new outlays for job creation next year that could delay deficit reduction.

Crowding out of private-sector investment, nonetheless, is not likely to become a serious problem for at least another year. Private-sector investment activity is weak this year and is unlikely to strengthen very much until the second half of 1984. In addition, corporate cash flows are improving rapidly as a result of the strong profit recovery. Of course, if economic recovery proves to be more robust than expected and progress is not made in reducing the budget deficit, the risk of heavy upward pressures on interest rates in Canadian financial markets arising from competing demands for funds could become very real by 1985. However, for at least the next year or so Canada is headed for reasonably good economic growth, similar to that expected in the United States.

Statistical appendix

for key to data in tables see pages 18 and 19.

Nominal effective exchange rates, 10

Real effective exchange rates, 10

Eurocurrency market size, 11

Eurocurrency deposit rates, 11

Eurocurrency bank credits, 12

International bond yields, 12

New international bond issues, 13

Central bank discount rates, 14

Day-to-day money rates, 14

Treasury bill rates, 15

Representative money-market rates, 15

Commercial bank deposit rates, 16

Commercial bank lending rates to prime borrowers, 16

Domestic government bond yields, 17

Domestic corporate bond yields, 17

Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	113.2	118.4	69.2	115.5	111.3	66.2	224.6	146.7	80.7	91.4	81.9	142.8	51.9	112.9	92.1	119.0
1973	95.5	119.6	83.6	128.8	114.5	75.9	144.4	122.9	84.0	94.5	85.7	143.6	58.0	114.9	95.1	116.9
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.6
1982																
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.9	100.2	106.9	97.4	92.3	107.6	93.2	90.0	104.5	91.5	106.6	82.9	101.2	99.1	97.6	81.3
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
October 7	114.8	101.1	110.9	92.5	85.4	108.2	88.6	91.5	103.6	88.7	105.2	76.0	113.7	95.1	100.8	82.9
14	114.8	101.0	110.7	93.4	85.3	107.8	88.6	92.5	105.7	88.7	105.0	75.9	113.0	95.2	100.9	82.3
21	114.6	101.0	110.7	93.7	85.5	108.3	88.7	92.0	103.8	88.7	105.0	75.9	113.3	95.1	100.8	82.2
28	115.0	101.0	110.9	94.1	85.5	107.9	88.4	92.4	103.7	88.6	104.8	76.0	113.0	95.2	100.6	82.5
November 4	115.8	101.1	110.4	94.1	85.4	107.5	88.3	92.8	103.6	88.6	104.7	75.9	112.4	95.0	100.8	82.6
11	116.2	101.0	110.3	94.4	85.3	107.3	88.2	93.1	103.2	88.4	104.5	75.7	112.5	94.7	100.8	82.7
18	116.5	100.9	110.6	95.1	85.0	107.0	88.5	93.0	103.4	88.4	104.4	76.0	112.7	94.8	101.0	82.8

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	116.3	104.4	87.7	96.1	99.5	98.8	118.0	79.3	90.2	120.7	98.2	67.8	75.2	110.0	93.0	103.7
1973	91.7	110.7	108.4	104.9	103.5	108.3	109.6	71.5	93.7	118.4	103.8	75.8	88.9	110.1	100.2	102.5
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.6	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1982																
November	115.6	101.1	87.8	102.7	95.2	99.5	97.8	98.7	100.9	90.3	103.7	99.3	101.5	98.9	99.2	89.1
December	111.8	99.5	94.2	102.4	97.1	100.7	99.1	95.0	102.1	91.0	103.4	91.7	103.3	100.0	99.2	88.0
1983																
January	109.6	100.8	97.8	103.8	97.4	101.1	101.4	92.6	103.1	91.7	104.6	91.5	97.0	101.0	98.9	89.2
February	110.2	101.4	96.8	103.7	98.4	99.7	99.9	90.7	102.5	92.8	103.6	91.5	105.4	100.8	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.0	99.7	89.1	103.7	94.0	103.5	90.3	103.4	101.0	99.3	88.7
April	110.4	103.0	96.0	94.7	96.1	100.9	100.1	93.2	102.4	93.0	101.7	90.4	104.4	100.9	100.3	89.3
May	110.3	103.2	96.9	95.5	94.7	100.1	100.2	96.3	101.6	92.3	101.4	90.3	104.6	100.0	101.4	90.0
June	112.5	103.5	95.3	96.8	94.4	99.3	100.1	96.9	101.0	91.4	101.1	89.5	104.4	98.5	100.8	91.2
July	113.4	103.6	95.3	97.4	95.2	98.5	100.3	96.5	101.3	90.5	100.9	87.8	105.2	97.3	101.2	92.1
August	115.3	103.6	93.7	99.5	94.6	98.3	99.7	97.3	100.4	89.6	100.1	87.9	106.2	95.8	101.0	92.8
September	113.9	104.7	94.5	100.7	95.1	98.6	99.3	97.5	100.3	89.0	100.2	87.3	106.1	95.8	101.3	93.1
October	112.1	104.5	97.1	102.3	95.3	99.6	99.3	95.9	100.6	88.6	100.8	86.6	106.8	95.9	100.9	93.4

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, Singapore, and United States international banking facilities
billions of dollars (rounded to nearest $5 billion), at end of period

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
										Mar	Jun
Estimated size											
Gross	395	485	595	740	950	1 235	1 525	1 860	2 060	2 090	2 055
Liabilities to nonbanks	80	90	115	145	190	260	350	460	505	505	n.a.
Liabilities to central banks	60	65	80	100	115	145	150	130	90	90	n.a.
Liabilities to other banks[a]	255	330	400	495	645	830	1 025	1 270	1 465	1 495	n.a.
Net	220	255	320	390	495	590	730	890	960	965	970
Claims on nonbanks	105	130	165	210	265	330	425	530	595	600	n.a.
Claims on central banks and on banks outside market area[b]	95	105	130	150	185	200	230	275	270	265	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	25	30	45	60	75	85	95	100	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	76	78	80	76	74	72	75	78	79	80	80

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Eurodollar:											
overnight	19.25	12.87	9.25	9.13	8.75	8.88	9.50	8.75	9.38	9.25	9.25
7-day fixed	19.75	13.00	9.25	9.25	8.75	8.88	9.50	9.44	9.50	9.38	9.25
one month	19.12	13.31	9.13	9.44	8.94	9.13	9.50	9.81	9.88	9.38	9.44
three months	17.55	13.75	9.19	9.63	8.88	9.44	9.69	10.19	10.25	9.50	9.63
six months	16.37	14.81	9.50	9.75	9.06	9.63	9.94	10.63	10.63	9.69	9.63
twelve months	14.87	14.75	9.63	9.94	9.25	9.81	10.06	10.75	10.94	10.00	9.69
Euromark:											
one month	8.87	10.44	5.88	4.81	4.88	4.94	4.94	4.81	5.25	5.56	5.56
three months	8.87	10.50	5.88	4.94	5.00	5.06	5.19	5.06	5.50	5.75	5.81
six months	8.87	10.56	5.94	5.13	5.06	5.25	5.50	5.50	5.94	5.88	5.81
twelve months	8.93	10.25	6.00	5.38	5.31	5.69	5.94	5.94	6.44	6.19	6.13
Euro-Swiss franc:											
one month	6.00	8.87	2.81	3.81	4.31	4.75	4.56	4.69	4.19	3.69	3.50
three months	6.00	9.25	3.25	3.88	4.38	4.75	4.63	4.75	4.44	4.13	4.13
six months	5.75	9.25	3.44	3.88	4.38	4.75	4.75	4.88	4.81	4.31	4.19
twelve months	5.50	8.50	3.44	3.94	4.38	4.63	4.69	4.81	4.94	4.38	4.31
Eurosterling:											
one month	14.75	15.37	10.56	10.75	10.25	10.25	9.63	9.56	9.56	9.63	9.19
three months	14.75	15.69	10.44	10.69	10.19	10.25	9.63	9.81	9.75	9.56	9.25
six months	14.25	15.69	10.31	10.63	10.06	10.25	9.88	10.25	10.13	9.56	9.38
twelve months	14.00	15.37	10.31	10.56	10.00	10.31	10.06	10.50	10.50	9.81	9.69
Euro-French franc:											
one month	11.12	15.75	23.00	12.13	12.38	12.50	12.38	12.13	13.00	12.75	12.25
three months	11.75	17.00	24.00	12.31	12.88	13.38	14.94	13.50	15.00	14.31	12.88
six months	12.25	18.00	22.00	13.75	14.38	15.75	16 69	15 25	16.75	15.81	14.00
twelve months	12.87	18.25	19.75	15.00	16.00	17.25	18.00	16.75	16.88	16.19	14.88
Euroyen:											
one month	9.12	6.12	6.75	6.38	6.13	6.31	6.44	6.44	6.69	6.69	6.13
three months	9.25	6.12	6.75	6.38	6.19	6.31	6.50	6.50	6.63	6.69	6.31
six months	9.62	6.87	6.81	6.38	6.19	6.31	6.50	6.56	6.63	6.69	6.31
twelve months	9.37	6.87	6.81	6.44	6.38	6.38	6.50	6.56	6.75	6.69	6.44

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1983			Jan-Nov	
				Sep	Oct	Nov	1983	1982
Industrial countries	**39 100**	**86 022**	**42 775**	**2 630**	**7 006**	**1 815**	**34 084**	**41 095**
Australia	2 475	1 680	4 721	295	—	30	2 223	4 446
Canada	1 743	4 112	3 838	—	118	—	318	3 778
Denmark	1 720	1 661	789	—	—	—	1 586	770
France	1 745	3 912	5 653	75	222	—	1 560	5 640
Greece	1 333	1 039	770	—	—	250	1 086	770
Ireland	237	1 361	401	—	—	—	621	401
Italy	6 268	6 030	3 657	486	381	66	2 796	3 504
Norway	685	713	2 069	13	—	—	349	1 969
Portugal	745	1 590	1 388	—	500	—	800	1 238
Spain	5 457	3 242	1 849	98	222	50	2 549	1 662
Sweden	1 370	1 867	649	75	—	—	3 175	599
United Kingdom	1 470	747	1 635	—	315	—	1 268	1 635
United States	6 719	54 784	6 566	1 450	4 983	1 335	12 190	6 046
Others	7 133	3 284	8 790	258	265	84	3 563	8 637
Developing countries	**35 054**	**45 264**	**41 515**	**2 056**	**577**	**1 336**	**31 486**	**38 877**
Non-OPEC countries	24 009	33 394	28 733	1 899	540	276	24 479	26 557
Argentina	2 506	2 534	1 565	—	—	—	1 750	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	5 400
Chile	1 322	2 204	1 194	—	—	—	1 319	1 194
Colombia	608	1 030	741	139	100	—	459	671
Korea	1 917	2 824	2 923	995	86	185	3 028	2 800
Malaysia	—	1 725	1 909	60	—	—	920	1 837
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 938
Peru	480	1 407	1 069	5	29	—	500	1 069
Philippines	1 056	1 257	635	—	—	—	715	580
Taiwan	314	928	255	—	—	—	536	255
Other	5 677	6 204	4 773	700	325	91	5 677	4 348
OPEC countries	11 045	11 870	12 782	157	37	1 060	7 007	12 320
Ecuador	1 209	934	815	—	—	—	431	815
Indonesia	1 435	725	1 250	—	—	—	1 166	989
Nigeria	1 330	1 802	2 042	22	—	—	1 836	1 990
United Arab Emirates	101	363	93	61	—	—	801	93
Venezuela	6 715	7 559	6 799	—	—	—	237	6 779
Other	255	497	1 783	74	37	1 060	2 536	1 654
Communist countries	**2 809**	**1 791**	**765**	**—**	**75**	**—**	**1 012**	**682**
China	181	370	43	—	—	—	10	10
East Germany	303	470	8	—	—	—	392	8
Hungary	550	550	340	—	75	—	483	290
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	127	374
International organizations[c]	**429**	**302**	**150**	**—**	**—**	**—**	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 205**	**4 686**	**7 658**	**3 151**	**67 903**	**80 804**

a Includes multinational organizations *b* Includes COMECON institutions *c* Includes regional development organizations *p* preliminary
r revised

International bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
U.S. companies:											
U.S. dollar	11.76	12.70	11.28	10.09	9.90	10.03	9.98	10.06	10.15	10 23	10.29
Swiss franc	7.27	7.30	5.76	5.66	5.71	5.88	5.86	5.83	5.84	5.78	5.81
European companies:											
U.S. dollar	12.42	14.29	12.45	11.37	11.17	11.18	11.33	11.48	11.47	11.51	11.40
German mark	8.79	9.36	8.17	7.49	7.16	n.a.	n.a.	7.69	7.66	7.56	7.39
Governments:											
U.S. dollar	11.83	13.59	12.51	11.17	11.09	11.22	11.24	11.51	11.58	11.75	11.73

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982r	1983			Jan-Nov	
				Sepr	Octr	Novp	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**51 645**	**4 455**	**5 493**	**3 314**	**44 575**	**48 696**
by category of borrower								
U.S. companies	4 107	6 178	12 567	684	345	420	5 532	12 526
Foreign companies	9 032	12 882	13 372	934	1 366	1 153	14 958	12 655
State enterprises	5 839	7 496	14 650	1 545	613	345	9 999	12 970
Governments	3 045	2 629	7 683	806	2 804	969	8 302	7 372
International organizations	1 947	2 431	3 373	486	365	427	5 784	3 173
by currency of denomination								
U.S. dollar	16 427	26 830	43 959	3 695	4 385	2 400	35 586	41 417
German mark	3 607	1 277	2 588	180	116	130	3 412	2 444
Dutch guilder	1 043	529	645	33	51	66	603	645
Canadian dollar	279	634	1 201	61	41	189	963	1 181
European composite units	65	309	1 980	171	611	127	1 861	1 737
Other	2 549	2 037	1 272	315	289	402	2 150	1 272
Foreign bonds outside the United States, total	**14 521**	**13 817**	**20 451**	**1 543**	**2 078**	**1 012**	**20 198**	**19 474**
by category of borrower								
U.S. companies	307	592	1 971	145	255	5	1 312	1 873
Foreign companies	3 157	3 384	4 376	602	508	398	7 029	4 013
State enterprises	2 830	3 701	5 488	153	328	153	3 911	5 409
Governments	4 086	2 762	3 577	299	272	101	2 796	3 445
International organizations	4 141	3 378	5 039	344	713	355	5 148	4 734
by currency of denomination								
German mark	4 839	1 310	2 952	75	173	235	2 412	2 745
Swiss franc	7 617	8 285	11 432	1 260	1 108	444	12 582	10 922
Dutch guilder	259	481	956	33	189	50	1 021	919
Japanese yen	1 088	2 457	3 418	165	365	234	3 305	3 231
Other	718	1 284	1 693	10	241	49	876	1 657
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**370**	**—**	**—**	**3 635**	**5 946**
by category of borrower								
Canadian entities	2 136	4 630	3 180	200	—	—	1 645	3 180
International organizations	550	1 375	1 700	120	—	—	1 020	1 700
Other	743	1 547	1 066	50	—	—	970	1 066
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**63 192**	**5 088**	**6 378**	**3 484**	**54 306**	**59 911**
Australia	539	991	2 250	100	849	32	2 214	2 146
Austria	1 859	1 557	1 668	—	25	87	1 165	1 668
Canada	3 797	10 648	11 979	1 051	788	235	6 487	11 710
Denmark	1 125	695	1 269	537	—	248	1 647	1 269
Finland	392	672	815	33	79	—	807	815
France	2 820	3 156	8 456	815	316	37	5 923	7 218
Italy	904	1 108	2 214	170	578	244	1 464	2 214
Japan	5 309	6 928	8 397	618	939	883	12 555	7 768
Netherlands	1 585	630	894	53	75	66	881	865
New Zealand	293	1 107	1 375	—	—	—	455	1 075
Norway	892	530	832	27	175	—	638	832
Sweden	3 244	2 050	2 479	46	1 080	5	3 555	2 267
United Kingdom	1 733	1 408	1 201	208	175	172	1 333	1 181
United States	5 587	6 770	14 538	753	600	425	6 768	14 399
Developing countries	**2 485**	**4 769**	**4 873**	**330**	**113**	**60**	**2 073**	**4 733**
Non-OPEC countries	1 942	4 338	3 833	80	113	60	1 728	3 743
Brazil	349	60	91	—	—	—	—	91
Korea	68	323	172	80	—	—	475	152
Mexico	544	3 012	1 919	—	—	—	—	1 919
OPEC countries	543	431	1 040	250	—	—	345	990
Venezuela	398	291	385	—	—	—	—	385
Communist countries	**65**	**75**	**65**	**—**	**—**	**—**	**75**	**65**
International organizations	**6 638**	**7 163**	**9 912**	**950**	**1 078**	**782**	**11 952**	**9 407**
TOTAL	**41 920**	**52 985**	**78 042**	**6 368**	**7 569**	**4 328**	**68 406**	**74 116**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.